

Attachment 14A: Prior Period Adjustments

Prior Period Adjustment (PPA):

A PPA is a material adjustment to balances reported in financial statements of a prior period due to correction of an error or change in accounting principle. Proper treatment and reporting of PPAs in current financial statements is dependent upon materiality and guidance contained in the Federal Accounting Standards Advisory Board guidance.

Authoritative Guidance:

- Statement of Federal Financial Accounting Standard Number 21: “Reporting Corrections of Errors and Changes in Accounting Principles,” available at: <http://www.fasab.gov/pdffiles/vol1v4.pdf>
- Treasury Financial Manual Transaction Scenarios at website: <http://www.fms.treas.gov/ussgl/current.html>

When is a PPA Appropriate?

A prior-period adjustment is appropriate when an error or the sum of an aggregate of errors made in a prior period is discovered and the error:

- **Materially** misstates the prior-period or current-period financial statements if a correction is not made, and
- Makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the inclusion or correction of the item.

How is Materiality Determined?

Materiality must be calculated against a materiality base. For example:

- If misstatement involves assets, the materiality base could be total assets;
- If misstatement involves expenses, the materiality base could be total expenses;
- If misstatement involves liabilities, the materiality base could be total liabilities (as opposed to total liabilities plus total net cost of operations).

Note also:

- The materiality base should be net of intragovernmental balances on the books of the reportable entity.
- For DoD reporting entities, an omission or misstatement is considered material if it is one percent or more of its materiality base.
- Each DoD reporting entity should calculate materiality separately. An entity is considered a reporting entity if it published financial statements for audit.

Procedures for Requesting a PPA:

All PPAs must be requested, and must be accompanied by a PPA package forwarded to the Agency Wide Audited Financial Statements Directorate. The PPA package should be prepared and forwarded ***immediately upon discovery of a material error, but no later than 15-days before the end of the quarter*** within which the need for PPA is identified.

PPA packages must include (referencing USSGLs and system GLACs, as applicable):

- Detailed explanation of what caused the error/omission or misstatement
- Explanation of how the amount was determined to be material
- The original entries made
- What the original entries should have been had there been no misstatement

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- Proposed entries to effect the correction
- Documentation sufficiently substantive to support an audit
- Documented coordination with entity auditors
- An indication as to whether this transaction is a one-time occurrence

Additional Important Notes:

- Upon discovery of a potential PPA immediately contact Agency Wide Audited Financial Statements Directorate for advice.
- The Agency Wide Audited Financial Statements Directorate will review all PPA packages and determine whether packages are complete and meet requirements for a PPA.
- The Director, OUSD(C), A&FP&A will be the final arbiter for disputes.
- The Director, OUSD(C), A&FP&A will approve/deny all requests.
- The DFAS Agency Wide Audited Financial Statements Directorate will notify requestors by email of the final OUSD(C) decision.
- Any entity with an approved PPA will ensure sufficient disclosure is included in all applicable footnotes to the financial statements.